

From: Rhodes, Vaughn
To: Microsoft ATR
Date: 1/28/02 1:04pm
Subject: Microsoft Settlement

Dear DOJ,

I am the former product manager at Compaq Computer Corporation who was responsible for the Compaq/AOL deal in 1995. I worked for Rod Schrock at the time, who worked for John Rose. You used several of my email messages in your case against Microsoft. Name: Vaughn Rhodes.

I HIGHLY object to the proposed settlement with Microsoft. I'll go a step further: I have a hard time believing that it is even being proposed. It is a gross miscarriage of justice. I know because I was at the heart of the project at Compaq that resulted in Microsoft sending a letter of termination to Compaq.

Let me provide some background for you.

In 1995, I was placed in charge of defining Compaq's consumer online strategy. I proposed a relationship with America Online, one which was great for America Online, and even better for Compaq. It was worth HUNDREDS OF MILLIONS OF DOLLARS IN INCREMENTAL PROFIT to our business unit. The deal, in a nutshell, involved Compaq heavily promoting the AOL service, in exchange for AOL giving Compaq a large revenue share.

Microsoft heard about this forming relationship. They contacted us and asked that we work with them instead of AOL, to promote their new online service code-named Marvel (now known as MSN, the Microsoft Network). We responded that we would be happy to work with them, but we would expect them to pay us in a similar fashion to how AOL was to pay us.

Their response? I'll paraphrase: We are Microsoft. We own the customer, not you, Compaq. You Compaq have three choices:

- 1) Do the deal with Microsoft. We will pay you NOTHING, but we'll have a closer relationship, with various intangible benefits (wink wink lower price on the OS, etc.)
- 2) Cancel the deal and do it with nobody. We Microsoft are OK with that.
- 3) Do the deal with AOL. WARNING: IF YOU PURSUE THIS OPTION, WE WILL PUT YOU OUT OF BUSINESS.

Our team at Compaq reviewed the situation, and concluded that Microsoft must be bluffing. They couldn't do it, because it would be such a blatant violation of anti-trust laws.

We decided to proceed with the deal.

Shortly afterward, Microsoft sent us a letter telling us that we were in violation of their Windows Licence agreement, and we could no longer sell PCs with Windows installed. THEY WERE PUTTING US OUT OF BUSINESS!!!

Needless to say, we ended up having to redo the deal with AOL, dramatically watering it down and making it effectively into a nothing deal: no real benefit to AOL, no real benefit to Compaq.

If this kind of behavior is not a flagrant abuse of monopoly power, I don't know what is.

I would be glad to discuss this further with anyone from the DOJ.

Please contact me at your earliest convenience.

Thank you,

Vaughn Rhodes
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